

### **IN THE SPECIFICATION:**

Please amend paragraph [0073] of the present specification as follows:

[0073] Step A: Transcode the P frame at 122 using a process as in a T2 transcoder. Obtain its rate (the consumed bit count designated by  $R(P)$ ) and distortion (such as  $PSNR$  (Peak Signal-to-Noise Ratio) or  $SAD$  (Sum of Absolute Difference) ) designated by  $D(P)$  in comparison with the input down-sampled video frame.

Please amend paragraph [0077] of the present specification as follows:

[0077] Step E: Compare the sum (or average) distortion  $D(B)+D(P)$  and  $D(S)+D(P_2)$  at 127. Since they consume about the same amount of bits, the approach with the smaller sum of distortion is preferred. If the  ~~$D/B$~~   $P/B$  ( $D(B)+D(P)$ ) approach is chosen at 128, i.e., both frames are transcoded, and finally the P frame is stored to the reference frame buffer at 129, and the process proceeds to the next sub-GOP. Otherwise, if the B frames are skipped and the P frame is encoded, i.e., the  $S/P_2$   $P_2/S$  approach is chosen at 130, and the  $P_2$  frame is transcoded, while the S frame is a skipped frame, and the  $P_2$  frame is stored to the reference frame buffer at 129, and the process proceeds to the next sub-GOP.